1999 Country Reports on Economic Policy and Trade Practices
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CANADA

Key Economic Indicators

(Billions of U.S. Dollars unless otherwise indicated)

	1997	1998	1999 1/
Income, Production, and Employment:			
Nominal GDP 2/	631.3	604.0	617.6
Real Growth Rate (pct)	4.0	3.1	3.4
GDP by Sector (pct):			
Goods	33	33	33
Services	67	67	67
Agriculture	2	2	2
Government	20	20	19
Per Capita GDP (US$)	20,765	19,673	20,495
Total Labor Force (000s)	15,354	15,632	15,346
Unemployment Rate (pct)	9.2	8.3	7.8
Money and Prices (annual percentage growth):			
Money Supply Growth (M2) 3/	-1.4	1.5	1.3
Consumer Price Inflation	1.6	0.9	1.7
Exchange Rate: (C$/US$) 4/	1.3844	1.4831	1.4885
Balance of Payments and Trade:			
Global Merchandise Exports	217.7	217.3	231.1
Exports to U.S.	175.1	181.7	194.1
Global Merchandise Imports	200.6	204.6	212.7
Imports from U.S.	152.7	157.5	163.8
Global Merchandise Trade Balance	17.1	12.7	18.4
Balance with U.S.	22.4	24.2	30.3
Current Account Balance/GDP (pct)	1.7	1.8	0.6
Net Public Debt 5/	418.7	388.9	421.2
Debt Service/GDP (pct) 5/	4.9	4.6	4.5
Federal Budget Deficit/GDP (pct)	0.4	0.3	0.0
Official Int'l Reserves 3/	18.0	23.4	26.8
Aid from U.S.	0	0	0
Aid from All Other Sources	0	0	0

1/ 1999 data is embassy projection unless otherwise noted.
2/ Exchange rate conversion causes nominal C$ growth to be reflected as negative US$ growth.
3/ Actual as of October 31, 1999.
4/ January to October 1999 average.
5/ Canadian Government data.

1. General Policy Framework

Canada has an affluent, high-tech industrial economy that resembles the United States in its per capita output, market-oriented economic system, and pattern of production. While production and services are predominantly privately owned and operated, the federal and provincial governments provide a broad regulatory framework and redistribute incomes among individuals and provinces. Federal government economic policies since the mid-1980s have emphasized the reduction of public sector intervention in the economy and the promotion of private sector initiative and competition. Nevertheless, government regulatory regimes affect foreign investment, most notably U.S. firms operating in telecommunications, broadcasting, publishing, energy, mining, and financial services.

A consensus of forecasters has projected the Canadian economy to grow by 3.6 percent in 1999, easing to 3.0 percent in 2000. These projections place Canada in line with the United States to lead the OECD in economic output in both years. In 1999, Canada's important export sector continued to benefit from the strong U.S. economy and from Canada's undervalued currency. At the same time, relatively low interest rates, employment gains and fiscal stimulus from the government sector fueled consumer spending. In 2000, Canadian economic growth is forecast to slow in line with the U.S. economy. The impact of slower U.S. growth will be most evident in Canada's external trade, since almost 85 percent of Canada's exports go the United States. Nevertheless, the Canadian economy should benefit from the "new era" of federal budget surpluses and improved provincial finances, as well as the positive turnaround in the Asian economies and rising commodity prices.

The close proximity and integrated manufacturing sectors of Canada and the United States has resulted in the largest bilateral merchandise trade relationship in the world. In 1998, total two-way trade in goods and services between the U.S. and Canada was US$368 billion, or, over US$1 billion each day. This was more than U.S. trade with the rest of the Western Hemisphere, and only US$107 billion less than U.S. goods and services trade with the entire 15-country European Union. The United States and Canada also share one of the world's largest bilateral direct investment relationships. In 1998, the stock of Canadian foreign direct investment in the U.S. was US$75 billion. At the same time, U.S. foreign direct investment in Canada was US$104 billion.

The United States and Canada share a 5,500-mile border. Both governments are committed to making this border a model of cooperation and efficiency. In 1995, President Clinton and Prime Minister Chretien announced the Shared Border Accord, a framework for better border management that seeks an appropriate balance between commercial facilitation and law enforcement. Since 1997, the U.S. Immigration and Naturalization Service has worked jointly with Citizenship and Immigration Canada on a border vision process regarding migration issues. On October 8, 1999, President Clinton and Prime Minister Chretien confirmed the following guiding principles for U.S.-Canada border cooperation: 1) to streamline, harmonize and collaborate on border policies and management; 2) to expand cooperation to increase efficiencies in customs, immigration, law enforcement and environmental protection at and beyond the border; and 3) to collaborate on common threats from outside Canada and the United States. The Canada-U.S. Partnership Forum (CUSP), established by Secretary of State Albright and Foreign Minister Axworthy, will work to facilitate implementation of these principles.

The U.S.-Canada bilateral civil aviation market is the largest in the world. As a result of the 1995 U.S.-Canada air transport agreement, U.S. and Canadian airlines are free to decide routes, ticket prices, and flight frequencies without government interference. Over a three-year period, the new agreement essentially removed all restrictions on U.S.-Canada transborder air services. By all accounts, the economic benefits of the new agreement have been enormous: total U.S.-Canada passenger traffic has increased by about 40 percent; fares have decreased significantly, and over 40 new city-pairs have service for the first time.

2. Exchange Rate Policy

The Canadian Dollar is a fully convertible currency, and exchange rates are determined by supply and demand conditions in the exchange market. There are no exchange control requirements imposed on export receipts, capital receipts, or payments by residents or non-residents. The Bank of Canada, which is the country's central bank, operates in the exchange market on almost a daily basis to maintain orderly trading conditions.

3. Structural Policies

The market establishes prices for most goods and services. The most important exceptions are government services, services provided by regulated public service monopolies, most medical services, and supply-managed agricultural products (eggs, poultry and dairy products). The principal sources of federal tax revenue are corporate and personal income taxes and the goods and services tax (GST), a multi-stage seven percent value-added tax on consumption. The personal and corporate income tax burden, combining federal and provincial taxes and surcharges, is significantly higher than in the United States, although it varies by province.

4. Debt Management Policies

The Canadian federal government (GOC) recorded its second consecutive budgetary surplus in FY1998-99 (April 1 – March 31), the first back-to-back surpluses in 47 years. Currently, the GOC projects that even though it plans to begin multi-year tax cuts in FY2000-2001, it will still have a cumulative budget surplus of US$65.5 billion by the end of FY2005. In FY1998-99, Canada's net public debt was reduced to US$393.7 billion, or 64.4 percent of GDP, an improvement from a peak of 71.2 percent of GDP in FY1995-96. In the past few years, Canada can take pride in experiencing a larger decline in its debt-to-GDP ratio than any other country in the G-7. Nevertheless, Canada's debt burden is still well above the G-7 average, ranking second highest after Italy. This is why the federal government remains committed to ongoing debt reduction initiatives. Such efforts will also serve to reduce Canada's debt servicing requirements, which currently absorb 27 cents of every government revenue dollar.

5. Significant Barriers to U.S. Exports

The U.S.-Canada trade relationship is governed by the 1989 U.S.-Canada Free Trade Agreement (CFTA) and the 1994 North American Free Trade Agreement (NAFTA.) While many tariffs were eliminated by January 1, 1994, non-tariff barriers at both the federal and provincial levels continue to impede access of U.S. goods and services to Canada or retard potential export growth. Canada maintains some restrictions on foreign investment and content in the so-called "cultural industries" and related sectors, including book and magazine publishing, broadcasting, and telecommunications. The United States objects to some of these restrictions and closely monitors new laws and regulations affecting these sectors.

Canada applies various restrictions to imports of supply-managed products (dairy, eggs and poultry), as well as fresh fruit and vegetables, potatoes, and processed horticultural products. The United States continues to pursue these issues bilaterally. With regard to Canada’s policies on milk, the United States maintains that Canada is providing export subsidies on dairy products without regard to its export subsidy reduction commitments in the agreement on agriculture (see also export subsidies policies section). The WTO appellate body upheld a February 5, 1999 ruling that Canada's dairy export pricing practices constitute a subsidy on milk used in products for export.

In 1997, a WTO panel supported U.S. complaints against various Canadian measures that limited U.S. access to the Canadian publications market. In mid-1999, Canada replaced these measures with the Foreign Publishers Advertising Services Act, which would have made it a criminal offense, punishable by fines, for foreign-based publishers to supply advertising services directed at the Canadian market. Under an agreement negotiated with the U.S. government, smaller circulation foreign-based publishers are exempted from the Act, as are foreign-controlled publications that contain 12 percent or less of advertising measured by revenue in a given issue, directed primarily at the Canadian market. Canada committed to increasing this percentage to 15 percent on December 3, 2000 and to 18 percent on June 3, 2002.

Canada is a signatory to the GATS Agreement on Basic Telecommunications Services.

Recent regulatory changes have opened both long-distance and local telephone services to competition. Canada's WTO obligations require a monopoly by Teleglobe Inc. on overseas calling to end in 1999. In September 1998, Canada eliminated third country routing restrictions for international traffic routed to and from Canada through the United States. Canada's Telecommunications Act allows the federal regulator, the Canadian Radio-Television and Telecommunications Commission, to forbear from regulating competitive segments of the industry, and exempts resellers from regulation. Canada retains a 46.7 percent limit on foreign ownership and a requirement for Canadian control of basic telecommunications facilities.

Foreign access to the Canadian financial services sector has improved as a result of the NAFTA and the GATS. The WTO Agreement Implementation Act removed long-standing limitations on non-Canadian ownership of federally regulated financial institutions; lifted a market share limitation on foreign banks; and extended NAFTA thresholds for investment review and control to all WTO members. Banking falls exclusively under federal jurisdiction, while the regulation of securities companies falls under provincial control.

The banking industry in Canada is governed by the federal Bank Act. The Bank Act and other financial services laws are mandated for review every five years. Amendments to the Bank Act in 1992 and 1997 removed some irritants of doing business in Canada for U.S. and other foreign banks. Foreign banks can now opt out of Canada Deposit Insurance, and as of February 1999, can set up branches. Two types of foreign bank branches are currently permitted: full-service and lending. Full-service branches are authorized to take non-retail deposits of not less than C$150,000 (est. US$100,000), while lending branches are not allowed to take any deposits and can borrow only from other financial institutions. The purpose of lending branches is to provide new sources of funds to businesses and credit card users. Full-service branches and foreign bank subsidiaries are not allowed to own lending branches.

In Canada's insurance market, companies can incorporate under provincial or federal law. Foreign ownership remains subject to investment review thresholds, and several provinces continue to subject foreign investments in existing, provincially incorporated companies to authorization. Insurance companies may supply their services either directly, through agents or through brokers. Life insurance companies are not generally allowed to offer other services (except for health, accident and sickness insurance), but may be affiliated with, and distribute the products of, a property and casualty insurer. As in banking, a commercial presence is required to offer insurance, reinsurance and retrocession services in Canada. However, insurance companies may branch from abroad on condition that they maintain trustees assets equivalent to their liabilities in Canada. Insurance companies can own deposit-taking financial institutions, investment dealers, mutual fund dealers and securities firms. In addition, insurance companies may engage directly in lending activities on an equal footing with deposit-taking institutions. The car insurance industry is a publicly owned monopoly in Quebec, British Columbia, Manitoba and Saskatchewan. All other provinces have regulated premiums.

Provincial legislation and liquor board policies regulate Canadian importation and retail distribution of alcoholic beverages. U.S. exporters object to provincial minimum import price requirements, and cost-of-service and packaging size issues hinder the importation of U.S. wine.

Canada currently prohibits foreign ownership of land border duty-free stores and imposes certain business size requirements and one-shop-per-site encumbrances that effectively limit market access. Prompted by citizen complaints, Canada initiated a review of requirements for land duty-free licenses in August 1998, and federal agencies currently are considering regulatory changes that may liberalize the industry and create investment opportunities for U.S. companies. The United States has encouraged the Government of Canada to give these proposed changes due consideration.

Canadian customs regulations limit the temporary entry of specialized equipment needed to perform short-term service contracts. Certain types of equipment are granted duty-free or reduced-duty entry into Canada only if they are unavailable from Canadian sources. Although NAFTA has broadened the range of professional equipment permitted entry, it has not provided unrestricted access.

The Canadian Special Import Measures Act (SIMA) governs the use of anti-dumping and countervailing duties. Canada operates a partially bifurcated trade remedies system under SIMA The Deputy Minister of National Revenue is responsible for initiating investigations and making preliminary and final determinations respecting dumping/subsidizing and preliminary determinations of injury. The Canadian International Trade Tribunal (CITT) is responsible for making final injury determinations. When the SIMA investigation process has resulted in levies imposed on U.S. products, these duties become an impediment to U.S. trade opportunity.

Transboundary environmental issues continue to be a major border concern to U.S. citizens from Maine to Alaska. Cooperation dates back to the 1909 Boundary Waters Treaty, and has grown to include collaboration on watersheds, flooding, air pollution and other common concerns. Efficient management of this agenda is complicated because of shared federal, state/provincial and local jurisdiction, and by the fact that it is carried out not only through bilateral agreements but by unique institutions such as the International Joint Commission (IJC) and the still-evolving NAFTA Commission on Environmental Cooperation.

6. *Export Subsidies Policies*

Export credit guarantees to support bulk and processed agricultural product exports are available through the Canadian Wheat Board and the Export Development Corporation, both crown corporations. Due to lack of transparency, data on the value and/or volume of commodities exported with credit guarantee support, destination countries, and terms are very limited.

Canada operates a two-tiered pricing system that enables dairies to acquire milk at a discount on the condition that the resulting products are exported or incorporated into certain further processed food products. By charging a higher price for milk and milk containing products for domestic consumption, the Canadian Dairy Commission is able to provide dairy product exporters with access to lower priced milk. The WTO appellate body upheld a February 5, 1999 ruling that these practices constitute an export subsidy.

7. Protection of U.S. Intellectual Property

Canada belongs to the World Trade Organization (WTO) and the World Intellectual Property Organization (WIPO). Canada is a signatory to the Paris Convention, Bern Convention, Rome Convention, Patent Cooperation Treaty, Strasbourg Agreement, Budapest Treaty, and the Universal Copyright Treaty. On December 18, 1997, the Canadian Government committed itself to sign the WIPO Copyright Treaty and the WIPO Performances and Phonograms Treaty, which deal with copyright and protection for performers and phonogram producers.

The most recent amendments to the Canadian Copyright Act were in 1997 and included, inter alia, "neighboring rights," which requires broadcasters to pay royalties to recording artists and record producers from countries that are signatories of the Rome Convention, (the United States is not). The 1997 legislation also establishes a levy on recordable, blank audio media, payable by manufacturers and importers of blank tapes to domestic artists and artists from countries with the same levy in place. The Government of Canada is in the process of determining how it will implement these amendments and we will continue to monitor their progress to ensure that implementation is consistent with national treatment provisions under the NAFTA. In 1998 and again in 1999, the U.S. Trade Representative maintained Canada on the "Special 301" Watch List because it perceives Canada's reciprocity application of these two provisions as a violation of Canada's national treatment obligations under NAFTA. The GOC has broad authority to grant the benefits of the regime to other countries, although it has yet to announce a determination regarding the U.S.

On April 30, 1999, USTR announced the initiation of WTO dispute settlement proceedings against Canada regarding its failure to grant a full 20-year patent term to certain patents as requirement by the TRIPs Agreement. Under the Agreement, Canada must provide a minimum patent term of 20 years from the date of filing. The TRIPs Agreement also requires that Canada extend such protection to all patents in existence on January 1, 1996. Canada provides a 20-year patent term only to those patents filed after October 1, 1989; earlier patents receive only 17 years of protection from the date that the patent was granted. At the WTO Dispute Settlement Body meeting on July 26, Canada blocked the USG request on the formation of a dispute settlement panel. Canada was not able to block the USG's second panel request, which took place on September 22.

8. *Worker Rights*

a. The Right of Association: except for members of the armed forces, workers in both the public and private sectors have the right to associate freely. These rights, protected by both the federal labor code and provincial labor legislation, are freely exercised.

b. The Right to Organize and Bargain Collectively: workers in both the public and private sectors freely exercise their rights to organize and bargain collectively. Some essential public sector employees have limited collective bargaining rights that vary from province to province. Over 37 percent of Canada's non-agricultural workforce are unionized.

c. Prohibition of Forced or Compulsory Labor: there is no forced or compulsory labor practiced in Canada.

d. Minimum Age Employment of Children: generally, workers must be 17 years of age to work in an industry under federal jurisdiction. Provincial standards (covering more than 90 percent of the national workforce) vary, but generally require parental consent for workers under 16 and prohibit young workers in dangerous or nighttime work. In all jurisdictions, a person cannot be employed in a designated trade (become an apprentice) before the age of 16. The statutory school-leaving age in all provinces is 16.

e. Acceptable Conditions of Work: federal and provincial labor codes establish labor standards governing maximum hours, minimum wages and safety standards. Those standards are respected in practice.

f. *Rights in Sectors with U.S. Investment:* worker rights are the same in all sectors, including those with U.S. investment.

Extent of U.S. Investment in Selected Industries -- U.S. Direct Investment Position Abroad on an Historical Cost Basis **--** 1998

(Millions of U.S. Dollars)

Category		Amount
Petroleum		12,559
Total Manufacturing		46,428
Food & Kindred Products	5,143	
Chemicals & Allied Products	8,295	
Primary & Fabricated Metals	3,231	
Industrial Machinery and Equipment	3,046	
Electric & Electronic Equipment	2,174	
Transportation Equipment	11,179	
Other Manufacturing	13,359	
Wholesale Trade		7,265
Banking		1,203
Finance/Insurance/Real Estate		22,057
Services		4,598
Other Industries		9,799
TOTAL ALL INDUSTRIES		103,908

Source: Bureau of Economic Analysis, U.S. Department of Commerce.